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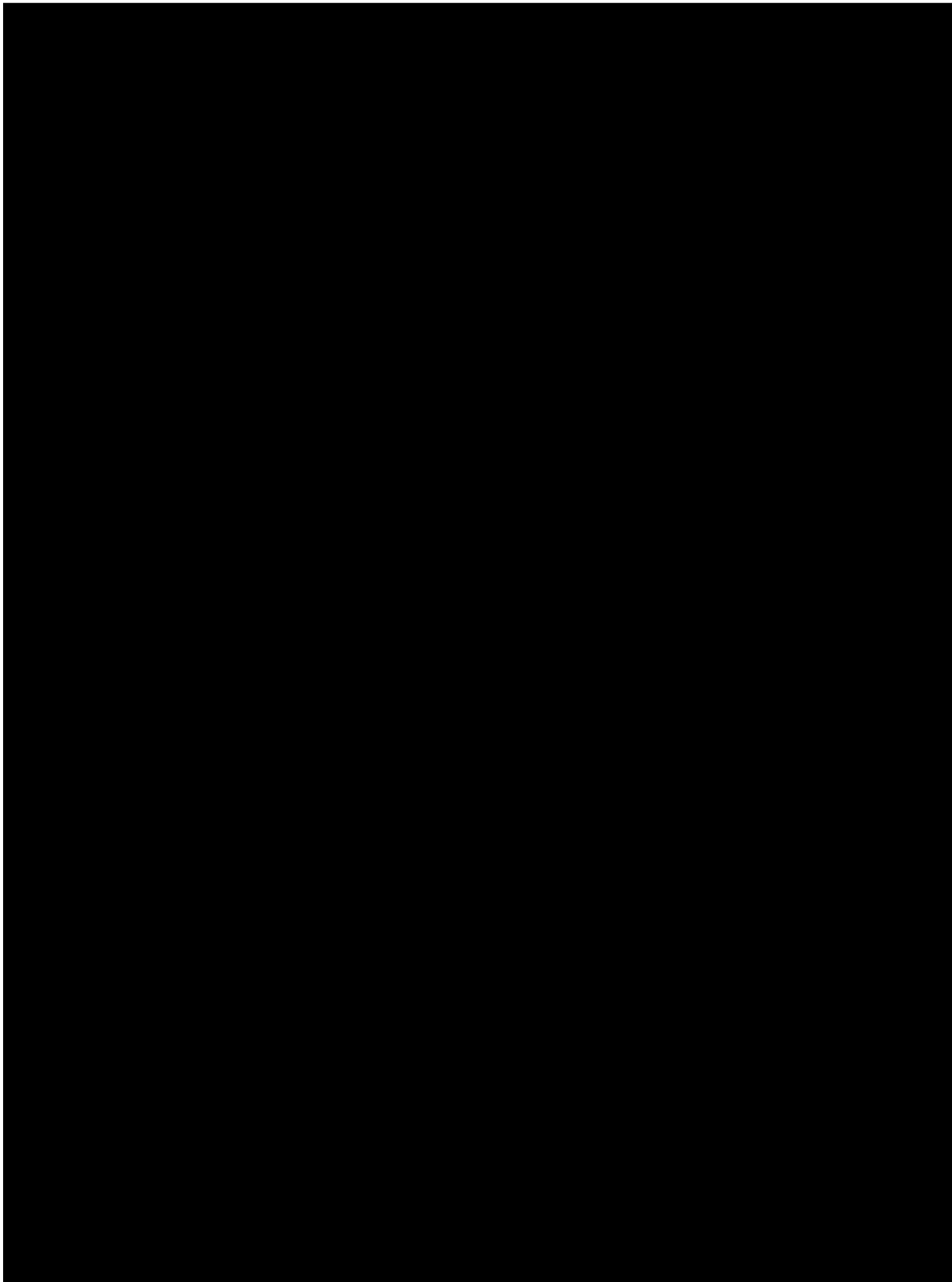
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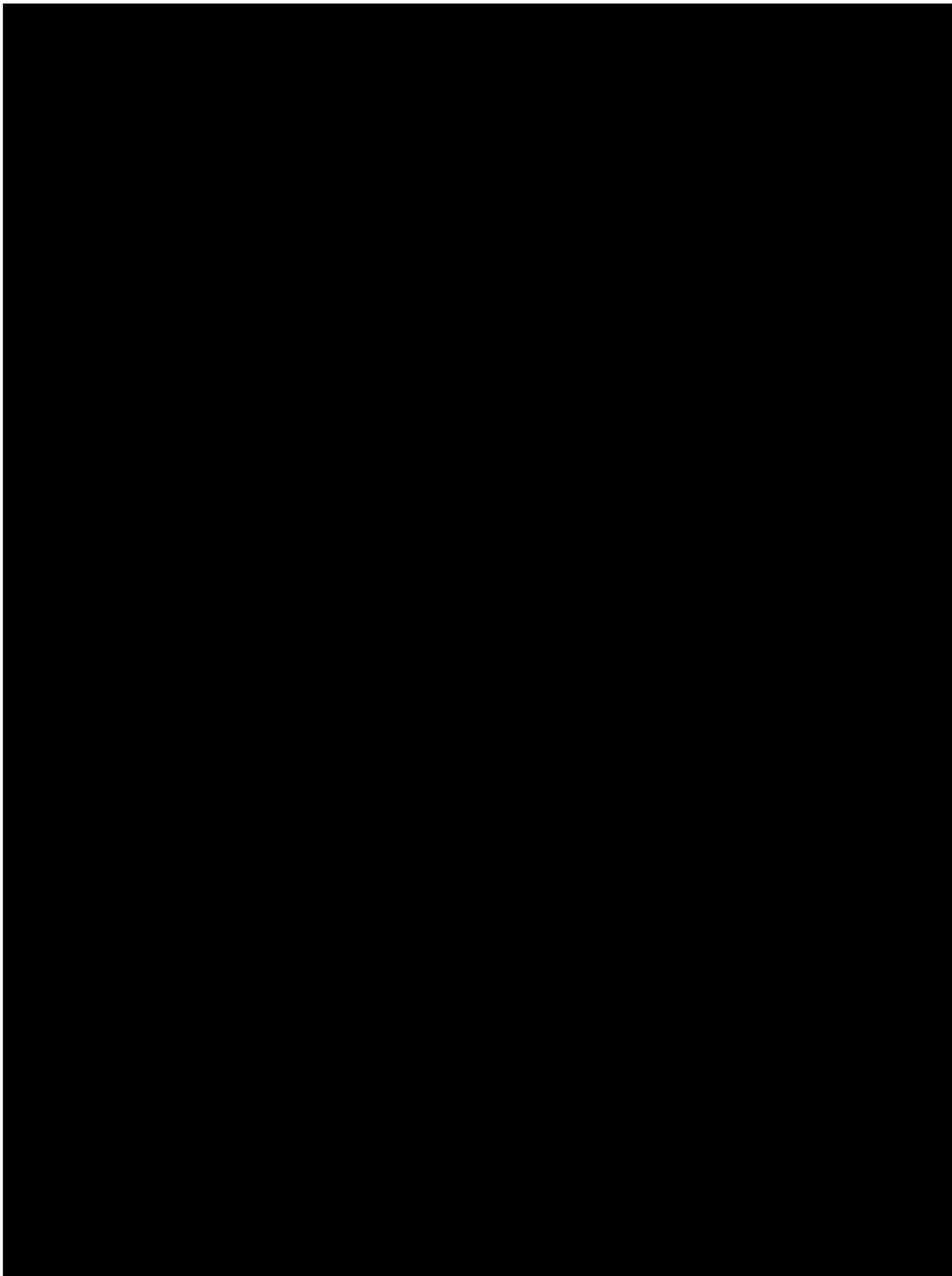
INTERNATIONAL NARCOTICS SITUATION REPORT

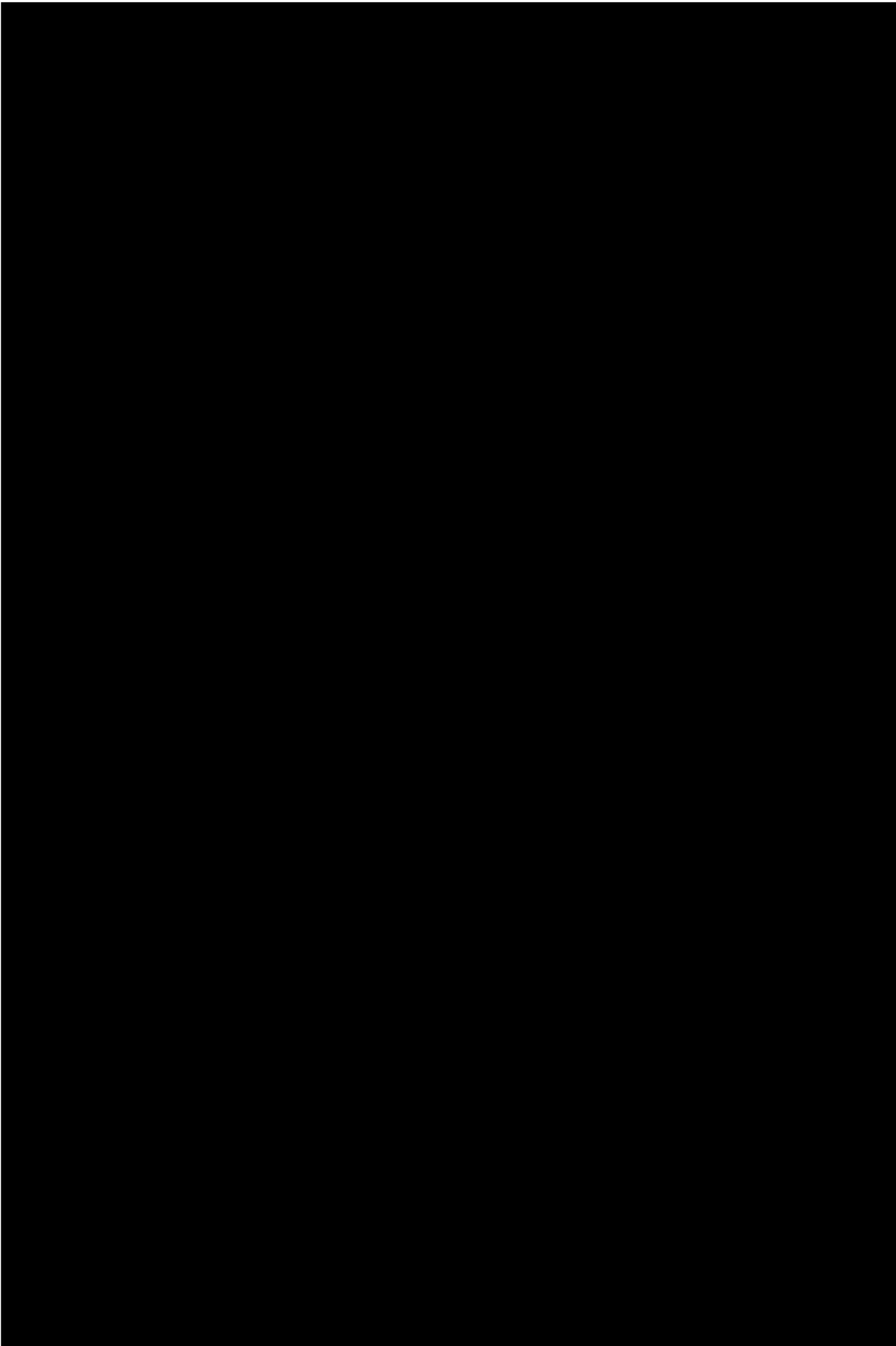
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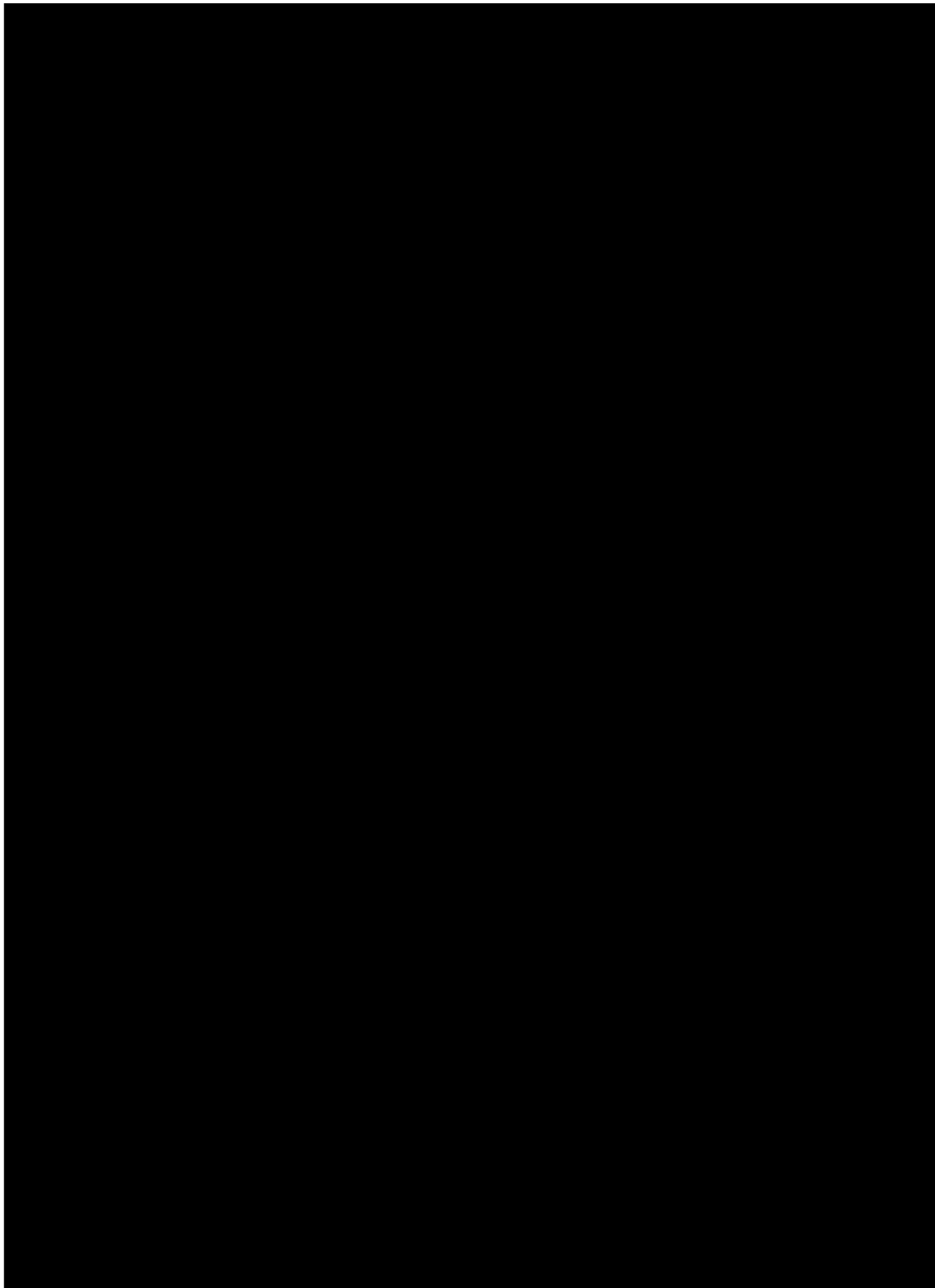
ITEM 4. COLOMBIA: NEW OPTIONS FOR MONEY LAUNDERING

~~NOFORN, NOCONTRACT, ORCON~~  
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ITEM 3. THE COLOMBIAN DRUG TRADE: PROSPECTS FOR EXPLOITING LEGAL REFORMS [REDACTED]

VARIOUS JUDICIAL REFORMS BOGOTA RECENTLY PUT IN PLACE ARE AN INTEGRAL PART OF PRESIDENT GAVIRIA'S CAMPAIGN TO END DRUG VIOLENCE WHILE STILL KEEPING PRESSURE ON THE TOP TRAFFICKERS. ENACTED IN JANUARY UNDER DECREE 2790, THEY ARE GAVIRIA'S INITIAL STEPS TO STREAMLINE THE LEGAL PROCESS, CREATE A US-STYLED PROSECUTORIAL SYSTEM OF JUSTICE, AND INCREASE THE PROTECTION OF JUDGES SO THAT COLOMBIA CAN ENHANCE ITS ABILITY TO INVESTIGATE AND PROSECUTE TRAFFICKERS AT HOME. TO THIS END, DECREE 2790 MAKES THE FOLLOWING ALTERATIONS IN COLOMBIA'S JUDICIAL SYSTEM:

X--VARIOUS SPECIAL ANTIDRUG COURTS ESTABLISHED UNDER FORMER PRESIDENT BARCO ARE COMBINED WITH EXISTING PUBLIC ORDER COURTS--HERETOFORE RESPONSIBLE FOR TERRORISM AND VIOLENT CRIMES--TO FACILITATE THE PROSECUTION OF THE MOST VIOLENT DRUG TRAFFICKERS.

X--FROM THE ORIGINAL POOL OF 100 SPECIAL AND PUBLIC ORDER JUDGES, THE GOVERNMENT REPORTEDLY HAS SELECTED THE 82 BEST QUALIFIED TO PRESIDE OVER THE NEW COURTS.

X--THE DECREE ESTABLISHES FIVE JUDICIAL CENTERS: MEDELLIN, CALI, BARRANQUILLA, CUCUTA, AND, FOR THE MOST SENSITIVE CASES, BOGOTA.

X--TO ENHANCE SECURITY, ONLY THE DIRECTOR OF EACH CENTER IS TO KNOW THE IDENTITY OF JUDGES TRYING SPECIFIC CASES; EARLIER PLANS TO BUILD FORTIFIED JUDICIAL 'CITIES' WHERE JUDGES WOULD LIVE AND WORK HAVE APPARENTLY BEEN POSTPONED.

X--THE POLICE REPORTEDLY HAVE BEEN GRANTED INCREASED AUTHORITY TO INITIATE AND CONDUCT INVESTIGATIONS, A PREROGATIVE PREVIOUSLY RESERVED UNDER COLOMBIA'S INQUISITORIAL SYSTEM OF JUSTICE SOLELY FOR THE PRESIDING JUDGE. [REDACTED]

[REDACTED] GAVIRIA REGARDS DECREE 2790 AS ONLY THE START OF AN EXHAUSTIVE, LONG-TERM EFFORT TO STRENGTHEN ALL ASPECTS OF COLOMBIA'S CRIMINAL JUSTICE SYSTEM. IN THIS REGARD, WE BELIEVE HE IS COUNTING ON THESE MEASURES TO PAVE THE WAY FOR THE PASSAGE OF EVEN MORE COMPREHENSIVE REFORMS BY THE CONSTITUENT ASSEMBLY, WHICH WILL BE MEETING THROUGH JULY TO REWRITE COLOMBIA'S CONSTITUTION. [REDACTED]


THE LACK OF TRAFFICKER RESPONSE TO THESE INITIATIVES SUGGESTS, AT LEAST OVER THE SHORT TERM, THAT THE INDUSTRY IS MORE CONCERNED WITH AVOIDING EXTRADITION THAN WITH FACING EVEN A REFORMED COLOMBIAN LEGAL SYSTEM. THE TRAFFICKERS ARE PROBABLY COUNTING ON A TRADITION OF JUDICIAL INCOMPETENCE AND INERTIA, COUPLED WITH THEIR PROVEN ABILITIES TO INTIMIDATE AND BRIBE, TO IMPEDE INITIAL PROGRESS. THEY

ARE ALSO LIKELY TO BELIEVE THAT THEIR PENETRATION OF LEGAL AND SECURITY CIRCLES WILL ENABLE THEM TO STIFLE ADDITIONAL EFFORTS TO MAKE THE REFORMS WORK. [REDACTED]

#### INSTITUTIONAL IMPEDIMENTS

IN OUR JUDGMENT, THE TRAFFICKERS' CONFIDENCE IS WELL PLACED, PARTICULARLY AS GOVERNMENT OBJECTIVES SEEM TO BE JEOPARDIZED BY A VARIETY OF INSTITUTIONAL AND OTHER IMPEDIMENTS. FOR EXAMPLE, EVEN THOUGH THE 82 SPECIAL JUDGES ARE REPORTEDLY THE BEST MAGISTRATES IN COLOMBIA, THEIR COLLECTIVE PERFORMANCE ON NARCOTICS HAS BEEN POOR. A LARGE PORTION OF THE 82 WERE DRAWN FROM THE NOW DEFUNCT SPECIAL ANTINARCOTICS COURTS, WHERE THEY WERE UNSUCCESSFUL IN DEVELOPING ANY SIGNIFICANT NARCOTICS INVESTIGATIONS IN RECENT YEARS. THIS FAILURE TOOK PLACE EVEN THOUGH THEY HAD A COMPREHENSIVE DRUG LAW, A GROWING BODY OF EVIDENCE, AND AN EXPANDING POLICE FORCE TO HELP ASSEMBLE CASES. [REDACTED]

SEVERAL LEGAL EXPERTS, MEANWHILE, WARN THAT FOR BUREAUCRATIC AND OTHER REASONS THE NEW COURTS MAY OBSTRUCT EFFORTS TO TURN MORE OF THE INVESTIGATIVE AUTHORITY OVER TO THE POLICE--A KEY STEP IN THE CREATION OF A PROSECUTORIAL SYSTEM OF JUSTICE. THE NEW DECREE, FOR INSTANCE, IS NOT CLEAR ABOUT HOW SUCH A TRANSFER IS TO TAKE PLACE; MANY JUDGES REPORTEDLY FEAR THAT GIVING INCOMPETENT AND UNTRAINED POLICE THIS ADDED POWER COULD LEAD TO GREATER HUMAN RIGHTS ABUSES, A THEME TRAFFICKERS ARE USING IN AN EFFORT TO BLUNT POLICE OPERATIONS IN MEDELLIN AND ELSEWHERE. IN THIS CONTEXT, BOGOTA'S PLAN TO ASSUAGE HUMAN RIGHTS CONCERNS BY ADDING ADDITIONAL INVESTIGATORS TO THE ATTORNEY GENERAL'S OFFICE--COLOMBIA'S INDEPENDENT WATCHDOG AGENCY--COULD WORK TO THE TRAFFICKERS' ADVANTAGE BY PLACING POLICE OPERATIONS UNDER EVEN GREATER SCRUTINY. FINALLY, EVEN THOUGH BOGOTA HAS RECENTLY NARROWED THE RANGE OF JURIDICAL DRUG, VIOLENCE, AND TERRORISM CASES, MAGISTRATES MAY NEVERTHELESS FACE AN OVERWHELMING WORKLOAD. THIS WOULD FORCE THEM TO CHOOSE WHICH INVESTIGATIONS TO PURSUE, THEREBY OPENING THEM TO PRESSURE FROM TRAFFICKERS WHO WANT THEIR CASES DROPPED. [REDACTED]



#### TRAFFICKER OPTIONS

BEYOND THE INSTITUTIONAL IMPEDIMENTS THAT WEAKEN THE REFORM

EFFORT, TRAFFICKERS HAVE A NUMBER OF WAYS TO PROTECT THEIR INTERESTS. CHIEF AMONG THESE ARE EXTENSIVE CONTACTS INSIDE AND OUTSIDE GOVERNMENT AND THEIR PROVEN ABILITY TO USE INTIMIDATION AND CORRUPTION TO ACHIEVE THEIR GOALS. [REDACTED]

[REDACTED]

[REDACTED]

DRUG INTERESTS, MEANWHILE, APPEAR WELL-POSITIONED TO CHAMPION THEIR GOALS IN THE CONSTITUENT ASSEMBLY. FOR EXAMPLE, [REDACTED] REPORTS THAT THE ASSEMBLY'S NINE-MEMBER COMMISSION RESPONSIBLE FOR EXAMINING JUDICIAL REFORM AND HUMAN RIGHTS ISSUES IS PACKED WITH TRAFFICKER SYMPATHIZERS AND EXTRADITION OPPONENTS. ITS CHAIRMAN HAS ADMITTED THAT THERE IS LITTLE CHANCE OF SAVING EXTRADITION AND HE BELIEVES THAT, DESPITE HIS SUPPORT, MANY OF GAVIRIA'S OTHER JUDICIAL REFORMS ARE IN JEOPARDY. TO UNDERScore THIS, THE CHAIRMAN HAS IDENTIFIED ONE COLLEAGUE WHO IS A FORMER SUPREME COURT JUDGE AND NARCOTICS DEFENSE LAWYER. HE ALSO REPORTEDLY HAS STRONG TIES TO THE NAME TERAN FAMILY--LIBERAL PARTY POLITICAL BOSSES FROM BARRANQUILLA WITH LONG ASSOCIATIONS TO NORTH COAST TRAFFICKERS. IN THE SAME VEIN, DRUG INTERESTS ALSO WILL BENEFIT BY THE ELECTION OF A FORMER MEDELLIN MAYOR--WHO ADVOCATES NEGOTIATIONS WITH TRAFFICKERS AND THE ABOLITION OF EXTRADITION--AS THE CHAIRMAN OF ANOTHER ONE OF THE



ASSEMBLY'S FIVE MAJOR COMMISSIONS. IN OUR JUDGMENT, THESE AND OTHER WELL-PLACED PERSONS GIVE DRUG INTERESTS THE CAPABILITY TO ACHIEVE MORE THAN THEIR PRIMARY GOAL--A CONSTITUTIONAL BAN ON EXTRADITION--AND TO PUSH FORWARD OTHER MEASURES TO RETARD DRUG INVESTIGATIONS. THESE WOULD INCLUDE PROHIBITIONS ON THE USE OF FOREIGN-SUPPLIED EVIDENCE AND RESTRICTIONS ON THE GOVERNMENT'S AUTHORITY TO SELECT THE VENUE FOR TRIALS. [REDACTED]

THE VULNERABILITY OF THE JUDICIAL SYSTEM TO BRIBERY AND INTIMIDATION ALSO CONTINUES TO WORK IN THE TRAFFICKERS' FAVOR. [REDACTED]

IF EXPOSED, UNCOOPERATIVE OFFICIALS WILL LABOR UNDER A HEAVY THREAT OF ASSASSINATION. THIS DANGER PERSISTS DESPITE SEVERAL RECENT SUCCESSFUL GOVERNMENT ATTACKS ON MEDELLIN ASSASSINS. FOR EXAMPLE, MEDELLIN POLICE BELIEVE THE PRISCOS--A GANG OF SOME 300 MURDERERS--WERE RESPONSIBLE FOR THE RECENT CAR BOMB IN MEDELLIN THAT KILLED 22 PEOPLE, INCLUDING 10 POLICE, EVEN THOUGH THE NETWORK HAD REPORTEDLY BEEN CRIPPLED BY A SERIES OF POLICE RAIDS IN WHICH ITS TOP LEADERS WERE KILLED. IN ADDITION, SEVERAL OTHER MEDELLIN ASSASSINATION SQUADS HAVE BECOME INCREASINGLY ACTIVE IN THE PAST MONTH, REPORTEDLY SEEKING REVENGE AGAINST HIGH-LEVEL POLICE AND JUDICIAL OFFICIALS FOLLOWING STEPPED-UP OPERATIONS AGAINST THEM. [REDACTED]

#### OUTLOOK

ULTIMATELY, THE OVERLY LEGALISTIC MENTALITY OF SENIOR JUDICIAL OFFICIALS MAY PROVE TO BE THE MOST INTRACTABLE BARRIER TO THE REFORMS. [REDACTED] COLOMBIANS ARE ENCOURAGED IN LAW SCHOOL TO DEBATE TO THE EXTREME THE PHILOSOPHY AND NUANCE OF LAWS, A PRACTICE THAT PREVENTS CONSENSUS, SLOWS THE ADJUDICATION PROCESS, AND WORKS TO THE ADVANTAGE OF THE MOST SKILLFUL LAWYERS, WHO TEND TO SERVE THE TRAFFICKERS RATHER THAN THE GOVERNMENT. THIS MENTALITY IS REFLECTED IN THE OPERATIONAL STYLE OF JUSTICE MINISTER GIRALDO, A FORMER SUPREME COURT JUDGE, WHO HAS BECOME INCREASINGLY OBSTRUCTIONIST WITH REGARD TO EVIDENCE SHARING AND OTHER LEGAL ISSUES AIMED AT IMPROVING BILATERAL EFFORTS TO COMBAT THE DRUG TRADE. MANY COLOMBIAN LEGAL EXPERTS WARN THAT IT WOULD BE YEARS--IF EVER--BEFORE THE JUDICIARY OVERCOMES THIS PROBLEM, AN IMPORTANT STEP IN PREPARING THE WAY FOR THE MOST RADICAL JUDICIAL REFORMS SUCH AS A PROSECUTORIAL SYSTEM. [REDACTED]

[REDACTED]

ITEM 4. COLOMBIA: NEW OPTIONS FOR MONEY LAUNDERING [REDACTED]

MONETARY REFORMS ENACTED IN EARLY FEBRUARY WILL EXPAND THE POTENTIAL FOR DRUG TRAFFICKERS TO LEGALLY REPATRIATE AND LAUNDER THEIR FUNDS IN COLOMBIA WITHOUT HAVING TO RELY ON FRONT COMPANIES, ILLICIT OFFSHORE ACCOUNTS, AND BLACK-MARKET FOREIGN EXCHANGE TRADERS. DESPITE REQUIREMENTS TO RECORD LARGE US CASH TRANSACTIONS AS A MEANS TO DETER MONEY LAUNDERING, WE BELIEVE IT WILL REMAIN DIFFICULT FOR BOGOTA, GIVEN LIMITED RESOURCES, TO GO AFTER DRUG MONEY, AND IN SOME WAYS THE NEW MEASURES COMPLICATE GOVERNMENT EFFORTS. [REDACTED]

BACKGROUND

DRUG MONEY LAUNDERING IN COLOMBIA PLAYS A CRITICAL ROLE IN DRUG TRAFFICKING OPERATIONS. THE FLOW OF FUNDS FROM SALES AND DISTRIBUTION CENTERS IN THE UNITED STATES AND WESTERN EUROPE TO COLOMBIA ENABLE TRAFFICKERS TO SUSTAIN THEIR OPERATIONS AND LAVISH LIFESTYLES AND WIELD ECONOMIC AND POLITICAL CLOUT. DRUG GROUPS USE REVENUES REPATRIATED TO COLOMBIA TO PAY PERSONNEL, PURCHASE EQUIPMENT AND COCA PRODUCTS, AND INVEST IN THE ENTERPRISES NEEDED TO PROCESS AND TRANSPORT NARCOTICS. [REDACTED]

NEW OPTIONS TO LAUNDER FUNDS

[REDACTED]

[REDACTED]

ESTABLISHED METHODS LIKELY TO CONTINUE


WE BELIEVE THESE NEW REGULATIONS GIVE TRAFFICKERS ADDITIONAL OPTIONS TO REPATRIATE THEIR FUNDS, BUT MANY--ESPECIALLY OVER THE NEAR TERM--WILL CONTINUE TO USE ESTABLISHED SURREPTITIOUS METHODS THAT HAVE WORKED SUCCESSFULLY IN THE PAST. UNLIKE LEGITIMATE BUSINESSMEN, TRAFFICKERS ACQUIRED THEIR FUNDS ILLEGALLY, AND WE BELIEVE THE DOCUMENTATION OF LARGE HARD CURRENCY ACCOUNTS THAT THE GOVERNMENT NOW REQUIRES MAY PERSUADE MANY TRAFFICKERS TO STAY WITH EXISTING METHODS. THE FRONT COMPANIES, OVERSEAS ACCOUNTS, AND BLACK-MARKET FOREIGN EXCHANGE TRADERS THEY HAVE USED CREATE LAYERS OF ANONYMITY THAT MAKE IT DIFFICULT FOR ENFORCEMENT AGENCIES TO TRACE THEIR WEALTH. FURTHERMORE, MANY OF THEIR ACCOUNTS IN OFFSHORE BANKING CENTERS ARE SUBJECT TO MINIMAL OR NO TAXATION, AND WE BELIEVE TRAFFICKERS WILL WANT TO KEEP MANY OF THESE LIQUID FINANCIAL ASSETS OVERSEAS. [REDACTED]

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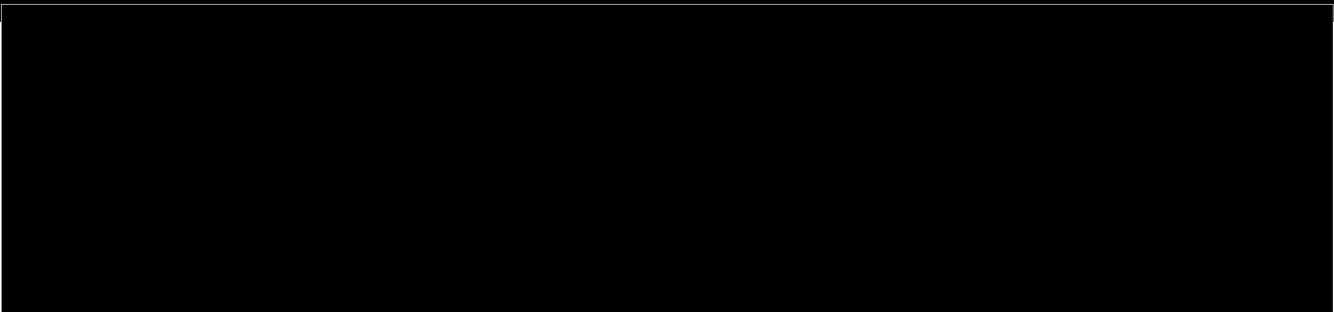
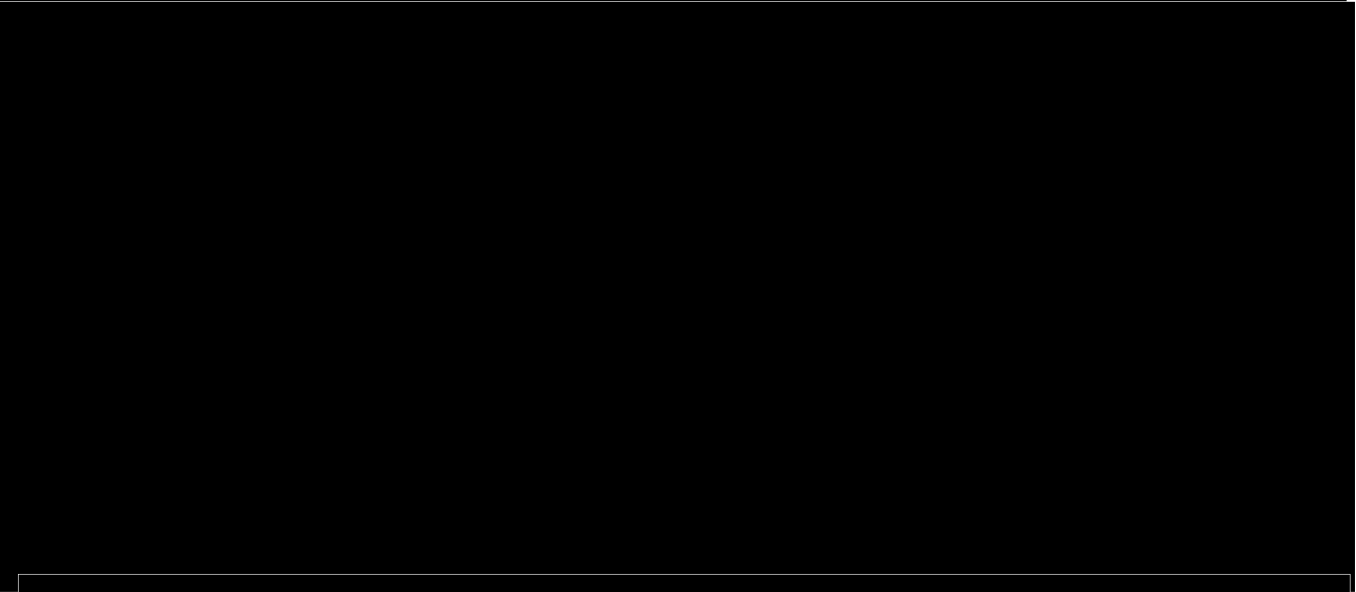
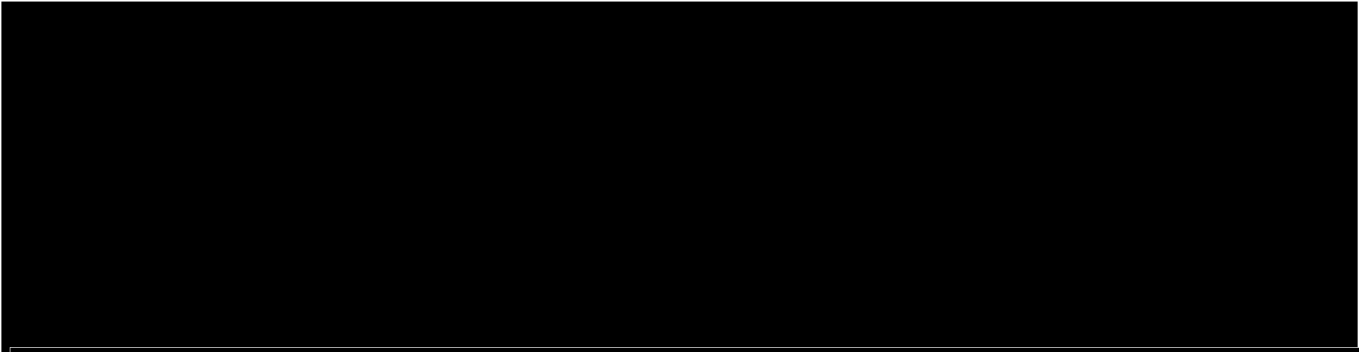
#### MONEY-LAUNDERING METHODS

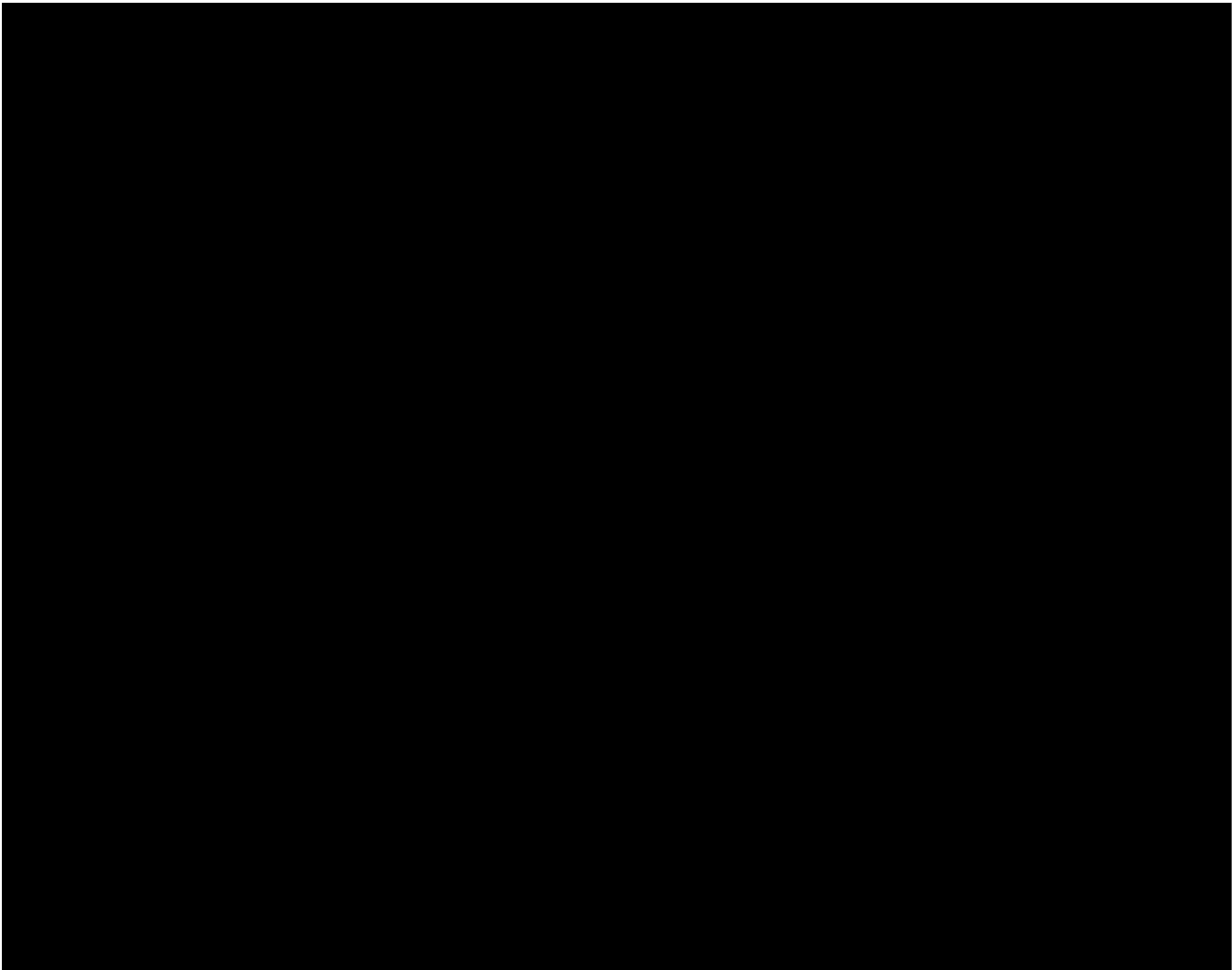
A WIDE VARIETY OF METHODS HAVE BEEN USED TO REPATRIATE AND LAUNDER HARD CURRENCIES IN COLOMBIA. THESE METHODS--MANY OF WHICH WE BELIEVE WILL CONTINUE TO BE USED--RANGE IN COMPLEXITY FROM THE SMUGGLING OF CASH INTO COLOMBIA TO WIRE TRANSFERS USING SOPHISTICATED FINANCIAL TRANSACTIONS TO DISGUISE THE ORIGIN OF THE FUNDS. AN UNTESTED SOURCE STATES THAT ''SWAPS'' AND ''DIRECT-LINES-OF-CREDIT'' HAVE BEEN STATE-OF-THE-ART MONEY-LAUNDERING TECHNIQUES FOR MAJOR COLOMBIAN TRAFFICKERS OVER THE PAST THREE YEARS TO TRANSFER MILLIONS OF DOLLARS MONTHLY:

[REDACTED]





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ALTHOUGH THE NEW MONETARY REFORMS REQUIRE ALL FINANCIAL INSTITUTIONS TO RECORD HARD CURRENCY CASH TRANSACTIONS OF US \$10,000 OR MORE, WE BELIEVE ITS EFFECTIVENESS IN DETERRING MONEY LAUNDERING WILL BE MINIMAL.  REPORTS THERE WILL BE NO

CENTRAL REPOSITORY FOR THIS INFORMATION AND INVESTIGATORS WILL HAVE TO REQUEST RECORDS DIRECTLY FROM THE JUDGE WHO HAS JURISDICTION OVER THE BANK. THE INABILITY OF THE OFFICE OF PROCURADOR GENERAL OR THE BANK SUPERINTENDENCY TO COLLECT AND ANALYZE THIS INFORMATION WILL FURTHER WEAKEN THE REFORM'S USEFULNESS. [REDACTED]

WE BELIEVE THE OFFICIAL IN THE BEST POSITION TO MAKE NOTICEABLE PROGRESS IN COMBATING MONEY LAUNDERING IS PROCURADOR GENERAL CARLOS GUSTAVO ARRIETA. [REDACTED] THE EFFECTIVENESS OF THIS OFFICE IS HIGHLY DEPENDENT ON THE ABILITIES OF THE INCUMBENT PROCURADOR. ALTHOUGH HE IS IN THE PROCESS OF FORMULATING AN AGENDA TO COMBAT NARCOTICS AND HAS YET TO MAKE PUBLIC STATEMENTS OUTLINING A STRATEGY TO ATTACK DRUG WEALTH, [REDACTED] REPORTS THAT HE HAS EXPRESSED AN INTEREST IN FERRETING OUT CORRUPT GOVERNMENT OFFICIALS AND CLAIMS HE WANTS TO AVOID A REPRESSIVE POLICY IN DEALING WITH TRAFFICKERS. IN THIS REGARD, WE BELIEVE HE MAY BE OPEN TO A MORE COHERENT AND AGGRESSIVE PROGRAM AGAINST DRUG WEALTH AS ONE MEANS TO ACHIEVE THESE OBJECTIVES. [REDACTED]

[REDACTED]

[REDACTED]

